Quarterly Portfolio Review
King County Investment Pool

December 31, 2012

Presented by
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PFM Asset Management LLC

Executive Summary

Purpose, Scope and Approach	• PFM Asset Management LLC (“PFM”) prepared this report to update our ongoing analysis and to address any Investment Pool developments since PFM’s previous formal review in September 2012. • Our approach included a detailed portfolio analysis and Investment Policy Compliance review, based on the County’s Investment Policy, dated July 2011, as amended February 2012. • Our analysis was based on the Investment Pool’s holdings as of December 31, 2012, with reference to holdings in past periods. • The review encompasses all current investments in the County’s Investment Pool.
Investment Program and Portfolio Review	• PFM reviewed the County’s portfolio with respect to Investment Policy Compliance, Sector Allocation, Issuer Concentration, Credit Quality, and Maturity and Duration Distribution. • As with previous reports, the County’s Investment Pool appears to provide ample liquidity, is well diversified, and is of sound credit quality. All holdings are investment grade, rated at least A-1, and pose minimal risk to principal. Aside from tri-party repurchase agreement counterparties, the Pool has no other direct corporate exposure. Through its LGIP holdings, approximately 4.4% of the County’s portfolio is indirectly invested in corporate obligations (repurchase agreements and certificates of deposit).
Observations	• The portfolio continues to possess high credit quality. All securities are either explicitly guaranteed or carry a high level of support by the U.S. Government (U.S. Treasury and Federal Agency), fully collateralized (repurchase agreements), and/or possess a high level of liquidity (Washington State LGIP). • Bond yields were volatile in the fourth quarter, as they remained hostage to several external factors (Hurricane Sandy, fiscal cliff discussions, Greek debt buyback program), but yields did finish the quarter slightly higher compared to where they began the quarter. Spreads between U.S. Treasuries and Federal Agencies continued to narrow in October, and then held steady for the rest of the quarter. Though the County maintained almost identical sector allocations, it has made appropriate shifts in allocation from Federal Agencies into U.S. Treasuries over the past nine months, as spreads have continued to decrease to historic lows. • During the quarter, the County made minimal changes to its portfolio maturity, balancing the portfolio’s weighted average maturity (“WAM”) by pairing longer-term and short-term purchases, cognizant of market conditions and liquidity requirements. The portfolio’s WAM moved from 419 days on September 30th to 417 days on December 31st, remaining essentially unchanged. As a result, potential market risk (sensitivity to changes in interest rates) is essentially unchanged and remains consistent with the objectives of the County’s Pool, as well as the County’s cash flow expectations. The Pool’s WAM increased by over 200 days year over year. In the current environment of range bound yields, extending maturity can result in higher initial yields and offer the opportunity to benefit from “roll down.” • The Pool’s credit exposure remains minimal. It includes the exposure to one counterparty (Credit Suisse) for the Pool’s tri-party repurchase agreements, as well as exposure through the County’s Washington State LGIP holdings. In total, less than 8% of the County Pool’s assets are exposed to corporate obligations, and these are typically fully collateralized. • The Pool appears to provide adequate liquidity. Approximately 50% of the portfolio is held in securities that mature within the next six months, and over half of those securities will either mature or may be called within the next month. Additionally, the Pool’s investments are highly marketable and actively traded in the market – all of which add to the Pool’s liquidity. • In keeping with typical seasonal cash flow patterns, total Pool assets increased by $356 million over the quarter, from $4,268 million on September 30, 2012 to $4,624 million on December 31, 2012.

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Portfolio Review

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II. Sector Allocation

- U.S. Treasuries
- Federal Agencies
- LGIP and Cash Equivalents
- Repurchase Agreements

III. Issuer Concentration

IV. Overall Credit Quality

V. Maturity and Duration Distribution

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I. Investment Policy Compliance – Investment Policy Summary

- The Investment Policy summary is based on the current Investment Policy for the County Investment Pool, dated July 2011 (amended February 2012).

Type	Maximum Portfolio Allocation	Issuer Restrictions	Credit Ratings	Maturity Restrictions
Repurchase Agreement	40%	5% per investment dealer; Firm must adopt a master repurchase agreement with the County. Maximum 5% per issuer applied across investment type.	Short-term credit ratings of at least A-1 / P-1 from at least 2 rating agencies. Must have a minimum asset and capital size of $25 billion in assets and $350 million in capital Collateral limited to U.S. Treasury and Agency securities.	60 days or less
Reverse Repurchase Agreement	20%	5% per investment dealer; Firm must adopt a master repurchase agreement with the County.	Short-term credit ratings of at least A-1 / P-1 from at least 2 rating agencies. Must have a minimum asset and capital size of $25 billion in assets.	6 months or less
Local Government Investment Pool ("LGIP")	25%	State of Washington LGIP	N/A	N/A
U.S. Treasuries	100%	None	N/A	Up to 5 years
U.S. Agencies	100% 20% Floating/Variable	35% exposure to any single Agency	Senior debt obligations issued by any government sponsored enterprise, agency or instrumentality of the United States, provided that such obligations are rated by S&P, Moody's, and Fitch at least as high as investments described under U.S. Treasuries. U.S. Agencies category includes Floating and Variable Rate Notes. The use of floating and variable rate notes (FRNs and VRNs) issued by Federal Agencies of the U.S. Government is allowable in the management of the Pool provided that the following criteria are met: 1) The final maturity (at the time of purchase) is no greater than two years; 2) The rate on the FRN/VRN resets no less frequently than quarterly; 3) The rate on the FRN/VRN resets with a frequency that produces a close tracking with money market rates; 4) The FRN/VRN is indexed to a money market rate such as Federal Funds, the 3-month Treasury Bill, LIBOR, or Prime Rate which correlates very highly with overall changes in money market rates even under wide swings in interest rates; 5) Any cap on the interest rate is at least 15.00% (1500 basis points) higher than the coupon at time of purchase.	Up to 5 years

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I. Investment Policy Compliance – Investment Policy Summary cont'd

Type	Maximum Portfolio Allocation	Issuer Restrictions	Credit Ratings	Maturity Restrictions
Bankers' Acceptances	25%	2.5% of portfolio; secondary market purchases only. Maximum 5% per issuer applies across investment type.	Must carry highest ratings of any two nationally recognized rating agencies.	Up to 180 days
Certificates of Deposit	25%	2.5% of portfolio; must be a public depository in the State of Washington. Maximum 5% per issuer applies across investment type.	100% collateralization Moody's P-3, S&P A-3, or Fitch F-3 or better, and a Safe & Sound rating of 3 or better. No new deposits will be placed with institutions that are on credit watch or predictive indicator "negative." Those institutions not meeting the minimum credit requirements may receive deposits up to the FDIC or federally guaranteed amounts.	Up to 1 year
Commercial Paper	25%	2.5% of portfolio; secondary market purchases only. Maximum 5% per issuer applies across investment type.	Must carry highest ratings of any two nationally recognized rating agencies at time of purchase. Purchases with greater than 100 days maturity must have an issuer long-term rating of one of the two highest ratings of a nationally recognized rating agency. State law requires that Commercial Paper be purchased only from dealers.	180 days
General Obligation Municipal Bonds	20%	2.5%; bond issues by pool participants must be purchased on the secondary market only.	At time of purchase, bond must have one of the three highest credit ratings of a nationally recognized credit rating agency	5 years
Mortgage-Backed Securities	25%	Must be issued by Federal Agencies of the United States. Investments in MBS will count toward the total that can be invested on any one agency as described in U.S. Agencies above.	Must pass the Federal Financial Institutions Examination Council ("FFIEC") suitability test, which banks use to determine lowest risk securities. If rated by Fitch, must have rating between V1 and V5	5 year average life at time of purchase
Bank Notes	20%	2.5% of portfolio. Maximum 5% per issuer applies across investment type.	Bonds must be rated "A" or better by two nationally recognized rating agencies or guaranteed by an agency of the federal government	5 years

- When combined, Bankers' Acceptances, Certificates of Deposit, Commercial Paper, and Term Repos (greater than 7 days), and Bank Notes are not to exceed 50% of the Pool assets.
- The Pool will maintain an effective duration of less than 1.5 years.
- The portfolio will maintain at least 40% of its total value in securities having a maturity of 12 months or less.

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I. Investment Policy Compliance – County Investment Pool

Topic	Observations
Sector Allocation	• All sector allocations fall within the limits set forth by the County's Investment Policy Statement. The Pool is predominantly invested in securities which are either explicitly guaranteed or carry a high level of support by the U.S. government. The County's allocations were little changed during the quarter, with the largest change being an increase in the allocation to repurchase agreements from 0% on September 30th to 3% on December 31st. All other allocations remained fairly consistent both on percentage and dollar bases quarter over quarter, as total Pool assets increased during the quarter. The largest allocations were to U.S. Treasuries, Federal Agencies, and the Washington State LGIP, and all were well within investment policy limits.
Credit Quality	• Securities held by the County are of very high quality. Approximately 80% of the County's assets are guaranteed or supported by the U.S. government. Approximately 3% are invested in repurchase agreements with an A-1 rated issuing entity (Credit Suisse). The remaining assets are primarily invested in the Washington State LGIP, which is not rated; however, 69% of the Washington State LGIP is invested in U.S. Treasury or Federal Agency securities. • In February 2012, the County amended the credit rating language of the Investment Policy. The technical changes stemmed largely from the Standard & Poor's downgrade of the U.S. Treasury and Federal Agencies.
Maturity Distribution	• All maturities fall within the maturity limits set forth in the County's Investment Policy. Maturities range from 1-day (the Washington State LGIP) to a Federal Agency Note with a maturity date of December 20, 2017 (4.9 years). Approximately 62% of the County's assets mature in one year or less, and approximately 50% of the portfolio will mature within the next six months.

Security Type	Market Value($)	Allocation Percentage	Within Policy Limits	Max Maturity Held	Within Policy Limits
Cash Equivalents	0	0.00%	✓	N/A	✓
Commercial Paper	0	0.00%	✓	N/A	✓
Repurchase Agreements	150,000,000	3.24%	✓	2 days	✓
LGIP	796,069,213	17.22%	✓	1 day	✓
Federal Agencies	2,012,033,000	43.51%	✓	4.9 years	✓
Agency Mortgages	16,100,987	0.35%	✓	4.2 years (WAL)	✓
Certificates of Deposit	0	0.00%	✓	N/A	✓
Municipal Bonds	0	0.00%	✓	N/A	✓
U.S. Treasury	1,650,000,000	35.68%	✓	4.3 years	✓

**Percentages may not total to 100% due to rounding.*

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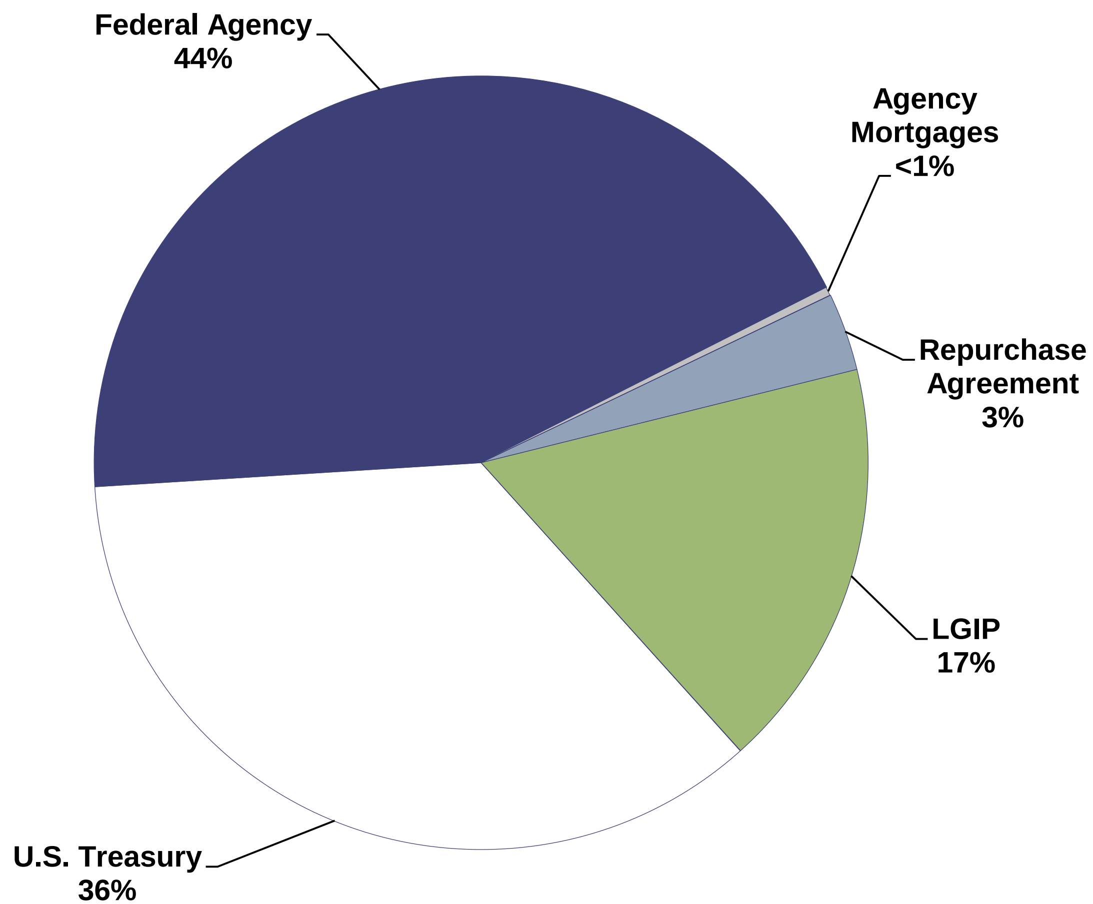
II. Sector Allocation

Sector Diversification
as of December 31, 2012



**Percentages may not total to 100% due to rounding.*

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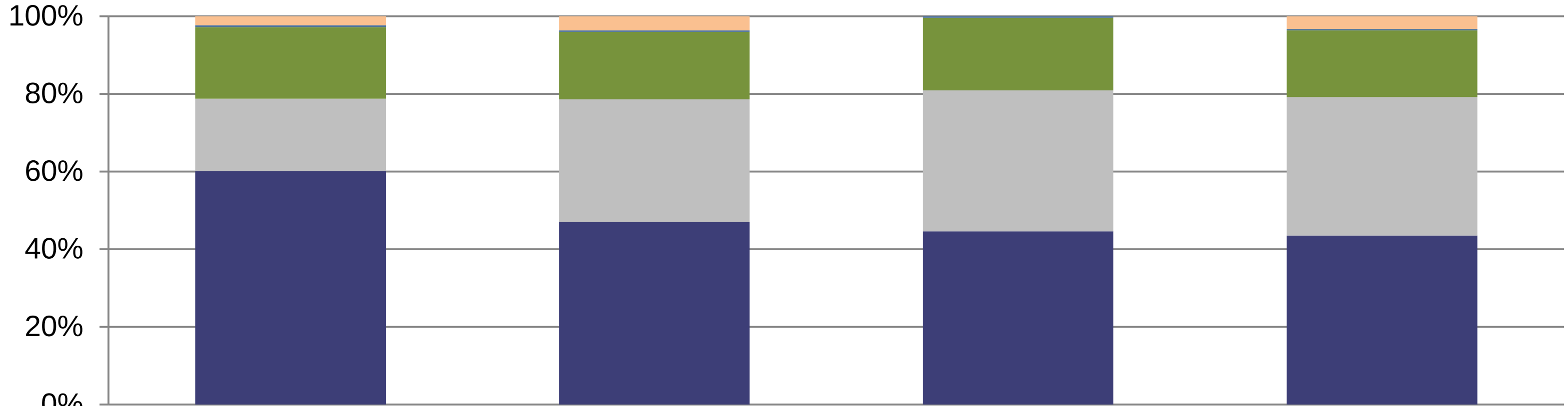
II. Changes in Portfolio Sector Allocation Over Past 12 Months

Changes in Sector Allocation

- As mentioned previously, the County's allocations remained relatively unchanged quarter over quarter. The County ended the quarter with an allocation to U.S. Treasuries of 35.7%, and the last two quarters mark the highest U.S. Treasury allocations since March 2011. Spreads between U.S. Treasuries and Federal Agencies continued to narrow in the beginning of the fourth quarter, due to the announced wind down of Fannie Mae's and Freddie Mac's investment portfolios, and these narrowed spreads remained for most of the quarter. The changes in the County's respective allocations to U.S. Treasuries and Federal Agencies over the past 12 months reflect an appropriate level of sensitivity to market conditions, as spreads have narrowed significantly. Other allocations remain consistent year over year.
- After one quarter without direct investment in repurchase agreements at quarter-end, the County ended the 4th quarter with a 3.2% allocation to repurchase agreements. Yields on repurchase agreements remained attractive in the fourth quarter; however, expectations for rates on repurchase agreements in 2013 are lower, due to changes in the banking sector and the end of the Fed's Operation Twist program, which had increased the supply of short-term bonds, and therefore yields on all short-term securities. Now that these short-term bonds are out of the market, repo yields will likely fall as supply decreases and other short-term rates fall.

Sector Allocation March 2012 – December 2012



	March 31, 2012	June 30, 2012	September 30, 2012	December 31, 2012
Federal Agencies	60.17%	47.03%	44.62%	43.51%
U.S. Treasury	18.57%	31.62%	36.32%	35.68%
Washington State LGIP	18.45%	17.34%	18.64%	17.22%
Cash and Equivalents	0.00%	0.00%	0.00%	0.00%
Certificates of Deposit	0.00%	0.00%	0.00%	0.00%
Agency Mortgages	0.49%	0.42%	0.42%	0.35%
Municipal Notes	0.00%	0.00%	0.00%	0.00%
Repurchase Agreements	2.32%	3.60%	0.00%	3.24%

**Percentages may not total to 100% due to rounding.*

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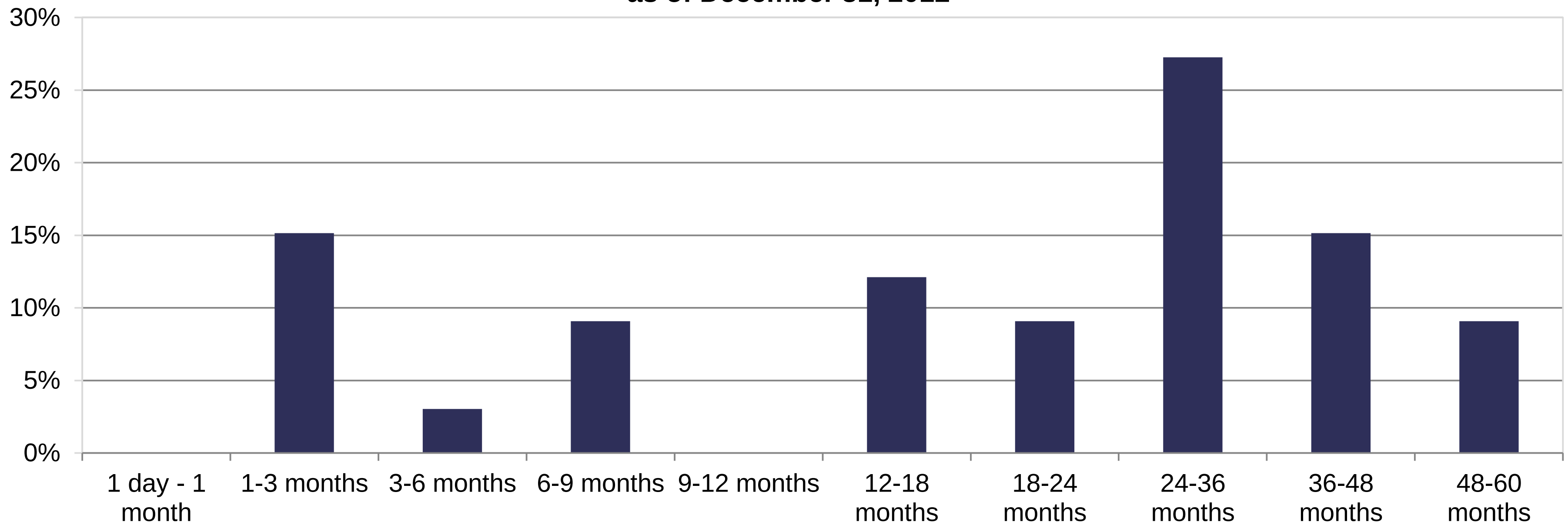
II. Sector Allocation – U.S. Treasury Securities

Topic	Observations
Observations	• The County's overall allocation to U.S. Treasuries slightly decreased to 35.7%, compared to 36.3% at the end of the previous period. The dollar allocation to Treasuries increased by $100 million quarter over quarter. • During the quarter, the County had no sales or maturities of U.S. Treasury securities, and it had $100 million in new purchases. The County purchased $50 million of 18-21 month U.S. Treasuries and $50 million of 48-51 month U.S. Treasuries for the pool during the quarter. These relatively longer maturities somewhat extended the portfolio, but the "roll down" of the County's existing securities decreased the weighted average maturity ("WAM") of the County's U.S. Treasury holdings from 794 days to 724 days. • Intermediate- and long-term U.S. Treasury yields were quite volatile in the 4th quarter. Yields were driven lower by Hurricane Sandy's economic disruption, an expansion of the Fed's bond purchase program, uncertainty leading up to the Presidential election, and fears the U.S. would go over the fiscal cliff. Conversely, yields were pushed higher by stronger than expected employment reports, a buyback program for Greek debt, a global rally in stocks, and confidence that the U.S. would avoid the fiscal cliff. • At the end of the quarter, intermediate- and long-term U.S. Treasury yields finished slightly higher. However, the continued prospects for political turmoil could weigh on the markets in 2013, as some issues remain unresolved from the fiscal cliff negotiations, including spending cuts and the need to raise the debt ceiling.

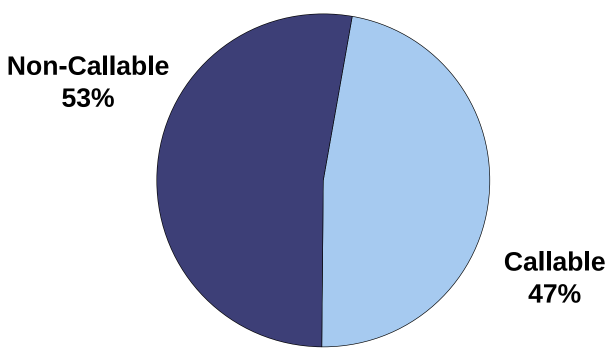
U.S. Treasury Maturity Distribution as of December 31, 2012



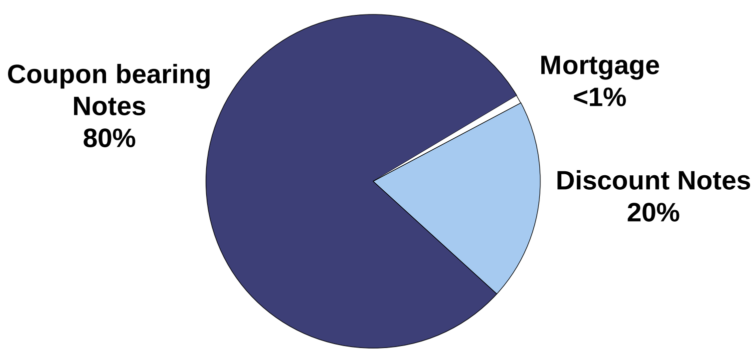
II. Sector Allocation – Federal Agencies

Topic	Observations
Structure	• Non-Callable 53% • Callable 47% • Discount Notes 20% • Coupon bearing Notes 80% • Agency Mortgage <1%
Diversification	• Freddie Mac (FHLMC) 34% • Federal Home Loan Bank (FHLB) 14% • Fannie Mae (FNMA) 30% • Federal Farm Credit Bank (FFCB) 21% • Freddie Mac Mortgage-Backed (FHR) <1% • Fannie Mae Mortgage-Backed (FNR) <1%
Conclusions	• The County's Federal Agency allocation is diversified among the four major issuers. Approximately $634 million of Federal Agency securities matured, were sold, or were called during the quarter. Over the quarter, the County purchased approximately $742 million in new Federal Agency securities, increasing its dollar exposure to Federal Agencies by approximately $106 million as compared to September 30th, as total Pool assets increased. As of December 31st, approximately 43.5% of the County's pool was comprised of Federal Agency obligations, marking the lowest level since June 30, 2011. • The County has increased its allocation to callable Federal Agency securities to 47% (of Agency holdings) as of December 31st versus 43% on September 30th. $200 million of the County's Federal Agency security purchases during the quarter were 1½ - 4½ year callable notes, callable within the next year. Callable Federal Agencies offer a slightly higher yield than comparable non-callable Federal Agencies in exchange for the risk that they could be called back by their issuers earlier than their stated maturities. Though they have generally had less value on a total return basis than bullet Federal Agencies in recent years, they can provide some short-term yield benefits if managed properly.

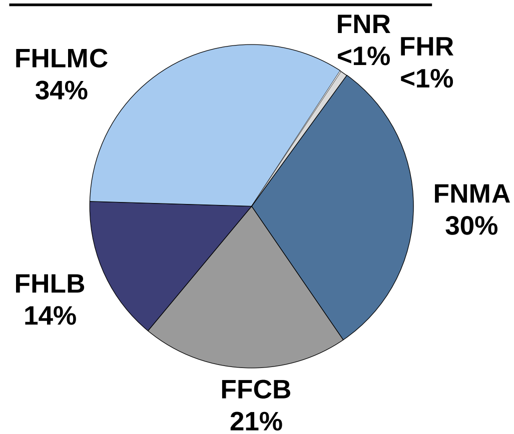
Callable vs. Non-Callable as December 31, 2012



Structure Distribution as of December 31, 2012



Issuer Diversification as of December 31, 2012

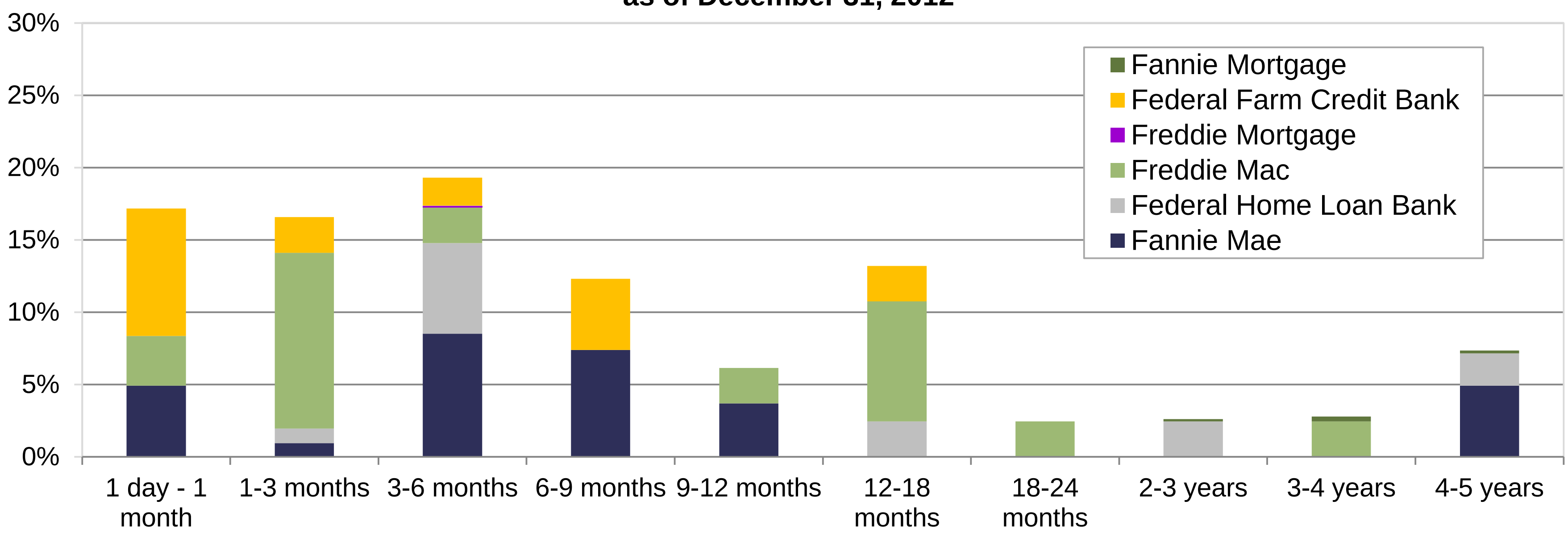


**All calculations above are based on total cash equivalents exposure, not overall Portfolio.*
***Percentages may not total to 100% due to rounding.*

II. Sector Allocation – Federal Agencies

Topic	Observations
Maturity Distribution	• The County's Federal Agency maturity distribution falls within the limits set forth by its Investment Policy Statement. • Bulleted and callable Federal Agency securities are diversified between maturities of nine days and 4.9 years (viewing callable securities to their call dates). Weighted average life for mortgage-backed Federal Agencies ranges from 0.5 to 4.2 years. • During the quarter, the County increased its holdings in longer-term Federal Agency securities, led by the purchase of approximately $145 million of 4-5 year Federal Agencies, as it took advantage of the positively sloped yield curve, which remains steep by historical standards. As of December 31st, approximately 72% of the County's Federal Agency holdings are set to mature in the next 12 months (viewing callable securities to their call dates and mortgage securities on an average life basis). As of September 30th, approximately 75% of securities fell into the same short-term category. As can be seen in the chart below, the County's Federal Agency holdings are well diversified by maturity. • These trades extended the portfolio's Federal Agency holdings to a longer overall maturity during the quarter, ending December 31st at 362 days compared to 290 days on September 30th.

Federal Agency Maturity Distribution by Name as of December 31, 2012



- Agency Mortgage maturities are calculated as average life. Average life data taken from Bloomberg Financial Markets
- Callable securities are shown to their next call date.
- All other Agency maturities are calculated as days to maturity.

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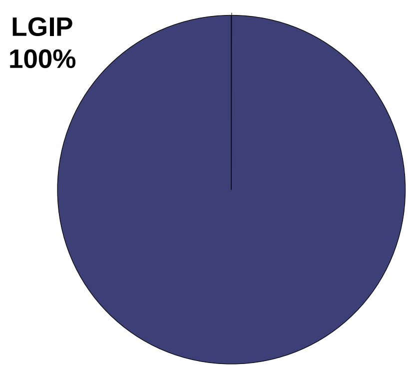
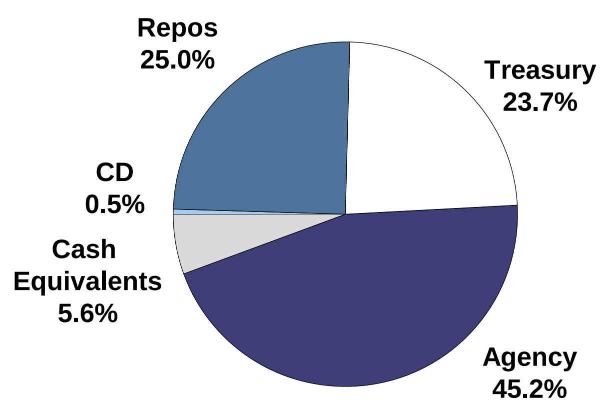
II. Sector Allocation – LGIPs and Cash Equivalents

	Underlying Investments	Rating	Observations
Washington State LGIP	• Federal Agencies 45.21% • U.S. Treasuries 23.74% • Cash Equivalents 5.62% • Certificates of Deposit 0.48% • Repurchase Agreements 24.95% *As of December 31, 2012*	• N/A	• The County currently has allocated $796.1 million to the Washington State LGIP (the "LGIP"). With the dollar allocation to the LGIP remaining approximately the same as at the end of the third quarter, the seasonal increase in the pool's assets during the fourth quarter is largely responsible for the relative 1.4% decrease in the LGIP allocation to 17.2% of total pool assets. • During the fourth quarter, the LGIP increased its U.S. Treasury allocation by 7.4%, while decreasing its repurchase agreement allocation by 5.1% and its allocation to cash equivalents by 1.3%. With the Federal Reserve's zero interest rate policy anchoring the short end of the yield curve, short-term yields are essentially unable to move higher. Unless market conditions change, it is unlikely that the LGIP's strategy will go through significant changes.

Issuer Distribution as of December 31, 2012



Washington State LGIP Sector Distribution as of December 31, 2012



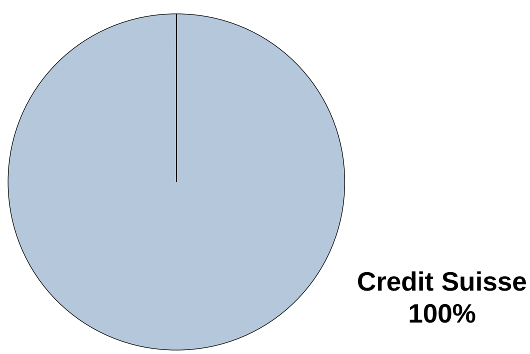
**All calculations above are based on total cash equivalents exposure, not overall Portfolio.*
***Percentages may not total to 100% due to rounding.*

II. Sector Allocation – Repurchase Agreements

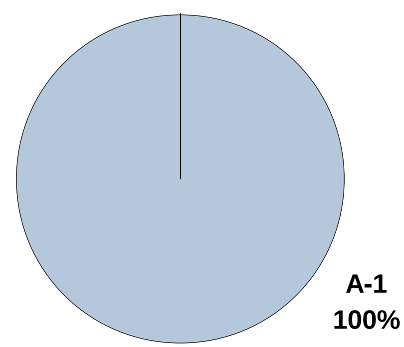
	Observations
Issuer Diversification	• The Pool holds one repurchase agreement from Credit Suisse in the amount of $150 million. • This security make up approximately 3.2% of the Pool's overall holdings. • The Credit Suisse repo falls within the County's Investment Policy restrictions of 5% per issuer and 40% portfolio allocation.
Credit Distribution	• Ratings and Outlooks of the three major ratings agencies are as follows:
Conclusion	• Repurchase agreements remain an appropriate means for the Pool to provide liquidity. • Though Moody's downgraded Credit Suisse's long-term credit rating in June among sweeping downgrades for 15 of the world's largest banks, its short-term rating was untouched. • With Operation Twist expiring at the end of 2012, the supply of short securities generally used for repo collateral has dropped, decreasing rates on repurchasing agreements from the comparative highs that were reached in the third quarter. However, as short-term rates for other types of securities have fallen as well, repurchase rates still remain fairly attractive.

Credit Suisse	Short-Term Rating	Outlook
Standard & Poor's	A-1	Negative
Moody's	P-1	Stable
Fitch	F1	Stable

Issuer Distribution
as of December 31, 2012



Credit Distribution
as of December 31, 2012



** All calculations above are based on total repo exposure, not overall Portfolio*

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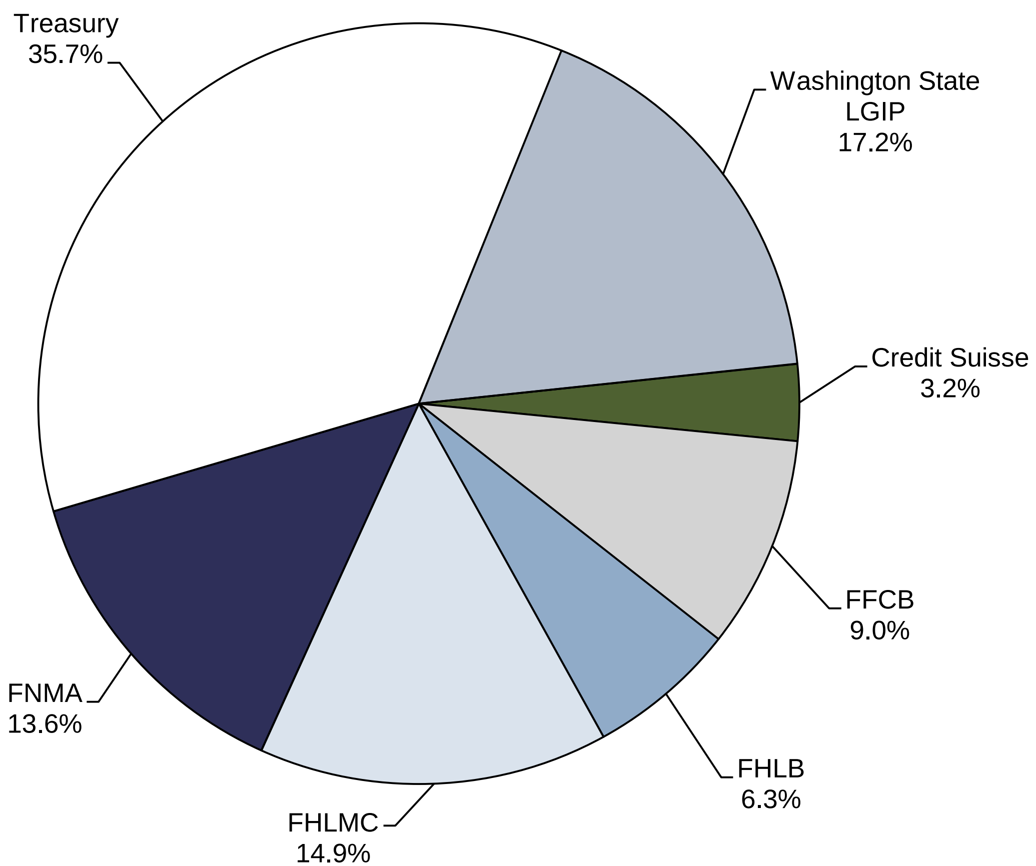
III. Issuer Concentration

Issuer Exposure

- The County has continued to diversify holdings by issuer, as is evidenced in the chart below. The County has allocated holdings among seven individual issuers.
- Approximately 80% of the portfolio is allocated directly to U.S. government guaranteed or government supported entities.
- The remaining 20% of assets are allocated to the Washington State LGIP (overnight liquidity) and short-term repurchase agreements.
- When including the Pool's indirect exposure to issuers through its holdings in the Washington State LGIP, the Pool's allocation to securities issued by U.S. government or government supported entities would increase to 91%.



**Percentages may not add to 100% due to rounding.*

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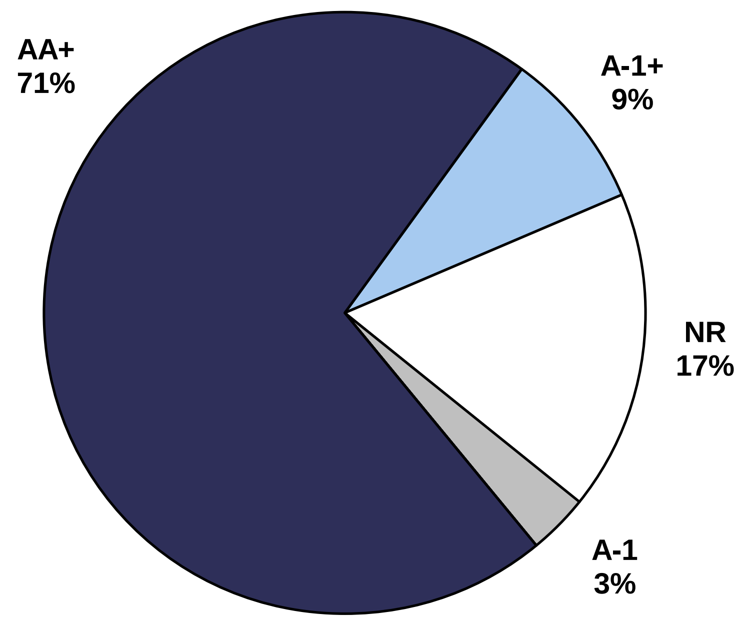
IV. Overall Credit Quality

County Investment Pool Credit Analysis

- The County Pool's overall average credit rating remains very strong. The last six quarters represent the lowest amounts of corporate exposure since PFM began analyzing the portfolio in 2008.
- A small portion of the portfolio, 3%, is allocated to assets rated A-1. The A-1 rated holdings represent the short-term credit rating of the County's tri-party repurchase agreement counterparty, Credit Suisse. As of December 31st, this investment carried an ultra-short maturity of 2 days.
- Most of the County's corporate exposure comes through its investment in the Washington LGIP. Through the LGIP, less than 5% of the County's total portfolio is allocated indirectly to corporate securities (repurchase agreements and certificates of deposit). The collateralization of the corporate securities held by the LGIP minimizes any credit risk.
- The 9% A-1+ allocation represents the County's investment in Federal Agency Discount Notes. A-1+ is the highest short-term credit rating from Standard & Poor's.
- As of the current quarter-end, approximately 80% of holdings are either guaranteed or supported by the U.S. government, down 1% from the end of the previous quarter.
- The 17% NR allocation represents the County's investment in the Washington State LGIP, which is not currently rated by any ratings agency.
- PFM has no concerns regarding the Pool's current credit distribution.

Credit Distribution*
as of December 31, 2012



*Ratings by S&P; Percentages may not add to 100% due to rounding.

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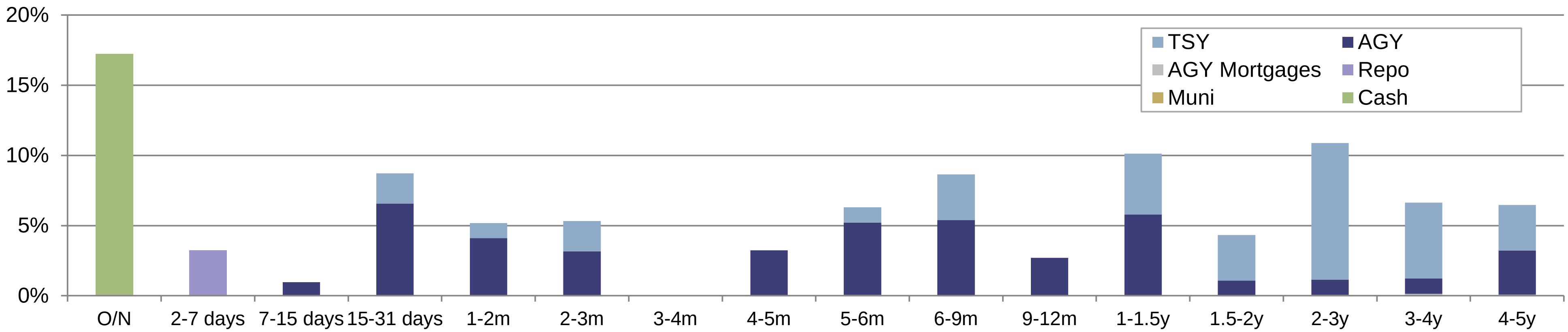
V. Maturity Distribution

Maturity Distribution	Observations
Weighted Average Maturity ("WAM")	• The County continues to diversify holdings among numerous maturity buckets, as seen in the chart below. • A majority of the holdings – 62% of the portfolio – are scheduled to mature within the next twelve months. This percentage is little changed from 63% at the end of the third quarter. • During the quarter, the County made $992 million of purchases and had $634 million of maturities, sales, and calls. These trades are described in greater detail on the previous pages. These transactions contributed to the slight decrease in the overall weighted average maturity ("WAM") of the portfolio from 419 days on September 30th to 417 days at the end of December (viewing callable securities to their call dates and mortgage securities on an average life basis). • If securities with maturities longer than one year are excluded, the remaining "short" portfolio has a weighted average maturity of 86 days, down from 107 days on September 30th. This weighted average maturity decreased as existing securities in the "short" portfolio rolled closer to their maturities, and the County purchased $397 million of securities with maturities or call dates in the next three months. The $350 million of securities purchased with maturities or call dates in the 6-9 month range balanced the maturity of the "short" portfolio somewhat. • Despite the increases in maturity over the past few quarters, the WAM of the portfolio offers a level of market risk that is consistent with the objectives of the County's Pool, and others with similar objectives, and is in keeping with the County's cash flow expectations.
Liquidity	• The County Pool appears to provide adequate liquidity, both in terms of final maturities and the sectors in which the Pool has invested. In addition to the 17% invested in the Washington State LGIP (overnight liquidity), approximately 13% of the portfolio's holdings are scheduled to mature within the next thirty-one days.

Maturity Distribution as of December 31, 2012



- Agency Mortgage maturities are calculated as average life. Average life data taken from Bloomberg Financial Markets
- Callable securities shown to their call date.
- All other security maturities are calculated as days to maturity. WA LGIP is considered to have a one day maturity.

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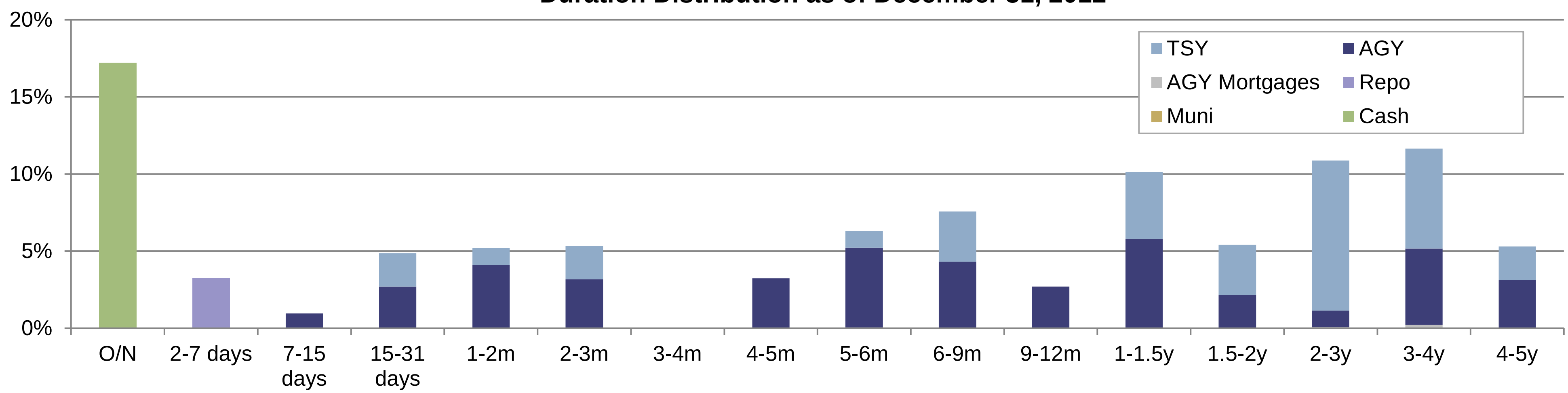
V. Duration Distribution

Duration Distribution	Observations
Definition	• Duration is a measure of the sensitivity of the value of principal of an investment to a change in interest rates. For example, the value of a portfolio with a higher duration is more sensitive to interest rate increases and decreases. • Duration is measured in years and is commonly used as a measure of market risk. Duration can be derived in a number of ways; please refer to the notes at the bottom of this page for details.
Duration	• As of December 31st, the duration of the County Pool is 1.27 years, up slightly from a duration of 1.21 years on September 30th. This duration offers a level of market risk that is consistent with the objectives of the County's Pool and its Investment Policy. • The County Pool's duration distribution is roughly in line with to its maturity distribution, meaning that it is likely that securities will mature when expected by the County. • 72% of the County's portfolio is invested in securities with durations of 2 years or shorter, providing some protection against any volatility in the County's longer-duration holdings. • In an environment of range-bound yields, extending duration, as has been done during 2012, can be beneficial. Longer duration securities typically have higher initial yields and benefit from "roll down." With the Federal Reserve expected to be on hold through mid-2015, shorter-term investments will likely remain range-bound near current levels, minimizing the market risk that comes with an increase in duration.

Duration Distribution as of December 31, 2012



- Agency Mortgage durations are calculated as modified duration using data taken from Bloomberg Financial Markets.
- Durations for callable securities are shown as days to each security's call date if the security's yield is less than its coupon rate, indicating that the security is likely to be called. If the yield is greater than the coupon rate, then Macaulay modified duration is used.
- Duration for Federal Agency Discount Notes and Repurchase Agreements are calculated as days to maturity. WA LGIP is considered to have a one day duration.
- All other security durations are calculated as Macaulay modified duration.

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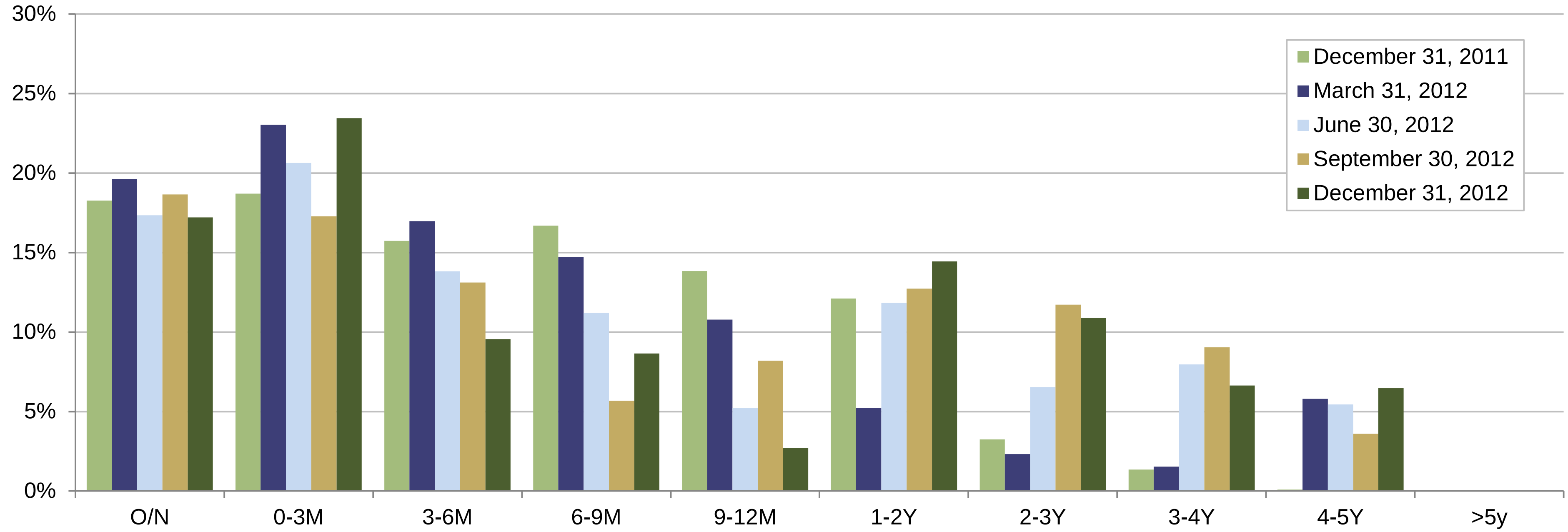
V. Changes in Portfolio Maturity Distribution

Changes in Portfolio Maturity Distribution

- Securities are well diversified by maturity, and range from overnight to nearly five years in maturity (viewing callable securities to their call dates and mortgage securities on an average life basis).
- Compared to previous quarters, the County has invested a larger proportion of assets in maturities between 1 and 5 years, and a smaller proportion in maturities less than 1 year. As several securities either matured or were called back by their issuers during the quarter, $196 million of new investments were made in the 4-5 year area, capturing the yield advantage offered by the longer term to maturity. Longer-term purchases from previous months have also "rolled" closer to maturity, causing a good distribution of maturities from 1-5 years.
- The total allocation to investments with maturities between 1 and 5 years is 38%, up from 37% on September 30th. This is the highest allocation to 1-5 year securities since PFM began monitoring the portfolio in 2008. Year over year, the total allocation to investments in this maturity range is up over 21%.
- As of December 31st, 41% of the County's funds carried final maturities of three months or less. This is up from September 30th, when 36% of funds were to mature in three months. Even with the increase in short-term and long-term funds, the County's portfolio remains fairly well distributed over all maturity ranges.

Maturity Distribution December 31, 2011 to December 31, 2012



- Agency Mortgage maturities are calculated as average life. Average life data taken from Bloomberg Financial Markets
- Callable securities shown to their call date.
- All other security maturities are calculated as days to maturity. WA LGIP is considered to have a one day maturity.

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